

Reclamation Manual

Directives and Standards

Subject:	Plant Accounting - General Property, Plant, and Equipment (PP&E)
Purpose:	Establishes requirements and procedures for valuation and accounting for investment in general PP&E held for operating purposes. The benefit of this Directive and Standard (D&S) is to properly record and value general PP&E in accordance with Generally Accepted Accounting Principles (GAAP).
Authority:	Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 6, <i>Accounting for Property, Plant, and Equipment</i> .
Approving Official:	Director, Management Services Office
Contact:	Business Analysis Division (BAD); Financial Policy, Compliance and Audit Team, 84-27410

1. **Introduction.** The Bureau of Reclamation's PP&E is classified as general PP&E in accordance with the SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. Reclamation's general PP&E consists of land, construction in progress (CIP), construction in abeyance, buildings, other structures and facilities, data processing software, and equipment. Reclamation's PP&E is used in providing goods and services in the marketplace, similar to a business-type entity. To fulfill its mission, Reclamation provides water conveyance, power generation, and recreation, which are all marketable items and meet the criteria for business-like transactions. Therefore, in accordance with SFFAS No. 6, all Reclamation PP&E shall be categorized as general PP&E whether or not it meets the definition of any other PP&E categories.
2. **Applicability.** This D&S applies to all regional finance offices.
3. **Definitions.**
 - A. **Capital Assets.** Capital assets are economic resources that are expected to provide future benefits and are used in the process of providing goods and services.
 - B. **Capitalized Costs.** SFFAS No. 6 defines assets as "tangible or intangible items owned by the Federal Government which would have probable economic benefits that can be obtained or controlled by the Federal Government." Per SFFAS No. 6, the costs of an asset may include all costs incurred to bring the asset to a form and location suitable for its intended use.
 - C. **Construction Costs.** If the work being performed will result in a capital asset when construction is complete, then it is a construction cost. Construction costs include labor, construction equipment, materials, supplies, installed equipment, land and water

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rights, and engineering and related services that contribute to the original value of the constructed asset. Costs that do not increase useful life of an asset, enlarge, or improve the capacity of an asset shall be expensed rather than capitalized.

- D. **Investigations/Study Costs:** Normally incurred as general investigation work, for example to provide start-up analysis and reports.
- E. **Operating Expenses.** Per SFFAS No. 6, expenses are "outflows or other using up of assets or incurrence's of liabilities (or a combination of both) during a period of providing goods, and rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period."
- F. **PP&E.** PP&E is any property, plant, or equipment used in providing goods or services, and typically has one or more of the following characteristics:
- (1) it could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or services, or to support the mission of the entity;
 - (2) it is used in business-type activities; and/or
 - (3) it is used by entities in activities whose costs can be compared to those of other entities performing similar activities (e.g., Federal hospital services in comparison to other hospitals).
- G. **Program Expenses.** Normal recurring expenses that do not meet the criteria of a "construction cost," or only benefit the current period.
4. **Responsibilities.**
- A. **Regional Finance Officers.** Regional finance officers are responsible for:
- (1) the proper accounting for the capitalized value of assets and for properly recording operating expenses in accordance with FASAB standards, which are recognized as GAAP for the Federal Government;
 - (2) ensuring compliance with laws and regulations related to repayment, cost allocation, and recovery of interest expense;
 - (3) implementing policy and ensuring adequate procedures and controls are in place to ensure accurate and timely reporting of costs; and
 - (4) referring a PP&E accounting issue to BAD for an interpretation of GAAP (e.g., expense vs. capitalization).

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B. **BAD.** BAD is responsible for:

- (1) developing guidance and procedures to account for PP&E including depreciation of same;
- (2) oversight, to ensure that established policy and procedures are in place and adhered to;
- (3) financial statement reporting and disclosures; and
- (4) upon request from a region, performing research and providing guidance/interpretation of GAAP.

5. **Operating Expenses.**

- A. Generally, costs incurred for a program's administration, or costs incurred for such activities as environmental studies or reviews that do not provide future benefit to a Reclamation-titled asset and are not directly related to the costs incurred to bring an asset to a form and location suitable for its intended use, must be recorded as an operating expense (Standard General Ledger (SGL) 610A) in the current accounting period. If costs are incurred to construct a capital asset, but that asset is not federally owned, the costs must be expensed in the period incurred (SGL 690D).
- B. If the cost of an activity that is not directly construction-related (such as investigations, surveys, wildlife relocation, or wildlife studies) is incurred prior to the decision to pursue construction of a Reclamation-owned asset or prior to construction authorization, if applicable, the cost must be expensed in the current accounting period.

6. **Analysis of Capitalized Costs.**

- A. Where Reclamation incurs costs of an activity directly attributable to acquiring, constructing, replacing, enhancing, improving, or extending the life of a federally owned asset, those costs must be capitalized when incurred after the decision to pursue construction or after actual construction authorization, if applicable.
- B. For example, costs for goods and services, such as engineering and supervision, labor, materials, and supplies, that are directly attributable to construction or that will result in the acquisition or construction of a federally owned asset will be capitalized when incurred after the decision to pursue construction or after actual construction authorization, if applicable.
- C. If the cost of an activity not directly construction-related (such as investigations, surveys, wildlife relocation, or wildlife studies) is incurred after the decision to pursue construction of a Reclamation-owned asset or after construction authorization, if applicable, and the activity is clearly attributable to that asset, the cost must be capitalized.

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- D. Costs for other activities such as environmental studies and wetlands development must be capitalized if clearly attributable to pre-construction, construction, or acquisition of a federally owned asset, and if incurred after the decision to pursue construction or after actual construction authorization, if applicable.
- E. The decision to capitalize or expense costs is made when the cost authority is established. The regional finance office must be closely involved in this process and must approve the final cost authority. A form may be used to provide for coordination with program personnel. Whatever form is used, at a minimum the following issues or questions must be addressed and thoroughly documented:
- (1) Description of work and reporting requirements.
 - (2) Is this cost authority established for "program expenses," "construction costs," or "investigation/study costs?" (See Paragraphs 3.C., 3.E., and 3.G.)
 - (a) What functions will benefit from these expenses or costs (e.g., multi-purpose or single-purpose)?
 - (b) Will this activity be reimbursable or non-reimbursable to the Federal Government?
 - (c) If this activity will result in a constructed or acquired asset, who will retain title?
 - (d) Will there be any contributions made by another party toward a Reclamation-owned asset? If so, will this contribution be in the form of a tangible asset, "in-kind" services, or cash?

7. Treatment of Capital Costs.

- A. Costs incurred to bring a federally owned asset to a form and location suitable for its intended use will first be recorded in CIP (SGL 1720). The costs of land, land rights, and easements attributable to land must be recorded in land and land rights (SGL 1711). At least annually, in accordance with Reclamation Manual (RM) D&S, *Plant Accounting - Construction in Progress*, FIN 07-24, an analysis must be performed to determine if construction of the asset is substantially complete. Until certain criteria are met, costs will remain in CIP. Key criteria for transferring CIP to other structures and facilities are:
- (1) construction work on a feature is substantially complete;
 - (2) the feature is providing benefits and services for the intended purpose(s); and
 - (3) the feature is generating project purpose revenue, where applicable.

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- B. For substantially completed construction, the balance will be transferred in accordance with requirements in FIN 07-24 to the appropriate completed plant SGL account as follows:
- (1) SGL 1730, *Buildings, Improvements, and Renovations*: Government-owned buildings under Reclamation's control, used in providing Government services or goods.
 - (2) SGL 1740, *Other Structures and Facilities*: Cost of Government-owned structures and facilities that is under Reclamation's control.
 - (3) SGL199A, *Other Assets*: This account consists of primarily intangible assets, which may be amortized over their useful lives. Some examples of costs that are recorded in this account include power rights, settler's assistance costs, and future year's capacity provisions.
- C. In instances where non-Federal entities provide part of the cost of a federally owned asset, the full cost of the completed asset must be capitalized in Reclamation's accounting records and subsequently depreciated. At a minimum, the non-Federal share of the cost of the asset must be recorded upon final completion of the asset.
- D. For capitalized costs, adequate documentation will be maintained in the regional finance offices to support the disposition of the costs, and that the asset is federally owned.
- E. **Depreciation.** Costs transferred to the above accounts, with the exception of land and land rights, must be depreciated or amortized over the useful life of the asset.
8. **Determination of the Beginning Balance of PP&E.** Reclamation activities can be traced back to the Reclamation Act of 1902, the initial legislation that established what is now known as the Bureau of Reclamation. This authority began the accumulation of more than 100 years of project activity and associated costs. Most Reclamation projects date back to such an age that either documentation no longer exists, or it would not be cost effective or feasible to retrieve associated documentation. For purposes of establishing beginning balances under the estimation provisions of SFFAS No. 6, paragraph 26, Reclamation will rely on the historical cost accounting information maintained in its cost subsidiary records for structures, buildings, and land. For financial statement reporting purposes, this historical cost accounting information is considered the support for the PP&E balances presented.
9. **Related References.**
- A. RM D&S, *Reconciliation of Standard General Ledger*, FIN 03-20B
 - B. RM D&S, *Standard General Ledger Chart of Accounts*, FIN 04-20
 - C. RM D&S, *Interest on Investment*, FIN 06-30C

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- D. RM D&S, *Interest During Construction*, FIN 07-20-10
- E. RM D&S, *Plant Depreciation*, FIN 07-20-20
- F. RM D&S, *Plant Accounting - Construction in Progress*, FIN 07-24
- G. *Replacements - Units, Service Lives, Factors, Limited Update – May 2006* (a joint publication of Reclamation and the Western Area Power Administration)